

**MINUTES OF THE REGULAR MEETING OF THE
ARIZONA STATE RETIREMENT SYSTEM BOARD**

**HELD ON
Friday, on November 19, 1999
9:00 A.M., M.S.T.**

The Arizona State Retirement System (ASRS) Board met in the Board Room of the ASRS office at 7660 East Broadway Boulevard, Suite #108, Tucson, Arizona 85710-3776. Mr. James Jenkins, Chairman, Arizona State Retirement System Board called the meeting to order at 9:02 A.M., M.S.T.

The meeting was teleconferenced to the ASRS office, 10th Floor Board Room, 3300 North Central Avenue, Phoenix, Arizona 85012.

1. Call to Order; Roll Call.

Present: Mr. James Jenkins, Chairman
Dr. Chuck Essigs, Vice Chairman
Mr. Jim Bruner
Dr. Merlin DuVal
Mr. Alan Maguire (via teleconference)
Mr. Norman Miller
Mr. Karl Polen (via teleconference)
Mr. Ray Rottas

Excused: Mr. David Borg

A quorum was present for the purpose of conducting business.

2. Approval of Minutes of the October 15, 1999, Regular Meeting of the Arizona State Retirement System Board.

Motion: Mr. Jim Bruner moved to approve the minutes of the October 15, 1999, Regular Meeting of the Arizona State Retirement System Board.

Dr. Merlin DuVal seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 4 excused, the motion was approved.

Dr. Merlin DuVal commended Jalene Trivino, Board Secretary for her efforts in producing quality minutes of the regular Board meetings. Mr. James Jenkins also expressed his compliments to Ms. Trivino.

3. Board Approval of Consent Schedule.

Motion: Dr. Merlin DuVal moved that the ASRS Board approve the Retirements, Refunds, and Death Benefits; System Transfers; and Applications and Agreements between Employers and the Arizona State Retirement System.

Mr. Ray Rottas seconded the motion.

By a vote of 5 in favor, 0 opposed, 0 abstentions, 4 excused, the motion was approved.

Mr. Norman Miller joined the meeting at 9:06 a.m.

4. Board Hearing and Action by the Board Regarding the Request for Hearing of Ms. Manuela Montano.

Mr. Fred Stork, Assistant Attorney General explained that at the September Board meeting, the Board requested for Fortis to obtain clarifying information from Ms. Manuela Montano's physician. The Board made this request, after hearing Ms. Montano's appeal, due to the fact that the physician's 1994 information indicated the member was not disabled from any occupation, yet in January 1999 the physician stated he believed Ms. Montano had been continuously disabled since 1991.

Dr. Chuck Essigs joined the meeting at 9:08 a.m.

Mr. Karl Polen joined the meeting via teleconference at 9:08 a.m.

Based on the clarifying information received from the physician, the following motion was made:

Motion: Dr. Merlin DuVal moved that based upon the record and presentation to the Board, the Board finds that Ms. Manuela Montano continued to be totally disabled after June 3, 1994, and therefore, is entitled to LTD benefit payments from and after June 3, 1994, until she no longer is totally disabled or otherwise no longer eligible for LTD benefit payments.

Mr. Ray Rottas seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

5. Presentation, Discussion and Appropriate Action Regarding the Total Fund Performance for the Period Ending September 30, 1999.

Mr. Terry Dennison, Principal, Mercer Investment Consulting presented the ASRS Total Fund Performance for the period ending September 30, 1999.

Performance vs. Benchmarks for the 3 Years Ending September 30, 1999

| | Port ROR | Bmk ROR | Assumed ROR | Port SD | Bmk SD | Assumed SD |
|---------------------------------|---------------------|--------------------|------------------------|--------------------|-------------------|-----------------------|
| Total ASRS Fund | 17.6 | 16.3 | 9.3 | 12.4 | 11.1 | 10.2 |
| Domestic Equity | 24.0 | 25.1 | 10.2 | 18.6 | 17.8 | 16.2 |
| Domestic Fixed | 7.1 | 6.8 | 7.0 | 4.2 | 3.6 | 7.0 |
| International Equity | 12.8 | 10.7 | 10.6 | 19.5 | 19.2 | 19.7 |

Performance vs. Benchmarks for the 5 Years Ending September 30, 1999

| | Port ROR | Bmk ROR | Assumed ROR | Port SD | Bmk SD | Assumed SD |
|---------------------------------|---------------------|--------------------|------------------------|--------------------|-------------------|-----------------------|
| Total ASRS Fund | 17.4 | 16.2 | 9.3 | 9.9 | 9.0 | 10.2 |
| Domestic Equity | 23.9 | 25.0 | 10.2 | 14.7 | 14.1 | 16.2 |
| Domestic Fixed | 8.5 | 7.8 | 7.0 | 5.3 | 4.3 | 7.0 |
| International Equity | 10.2 | 9.4 | 10.6 | 15.1 | 14.8 | 19.7 |

Mr. Ray Rottas inquired if reports indicate there will be more Y2K related problems in foreign countries. Mr. Dennison responded that the effects will vary in Asia and Europe. Mr. Dennison also reported that the Europeans have recovered from the Euro exchange very well, and therefore, have in a sense undergone situations similar to Y2K.

Mr. Norman Miller inquired why the Fed is providing extra liquidity. Mr. Dennison stated that the Fed raises rates in order to slow the economy. The Fed feels the demand for goods is growing faster than the supply of goods. Mr. Dennison further explained that the extra liquidity is a safeguard the Fed is putting into place for Y2K.

6. Presentation, Discussion and Appropriate Action Regarding the Performance of the Domestic Mid Cap Equity Managers for the Period Ending September 30, 1999.

Mr. Terry Dennison, Principal, Mercer Investment Consulting, Inc., reported on the Investment Manager's performance for Conseco Capital Management, Inc. and Mellon Equity for the period ending September 30, 1999.

Mr. Thomas Pence, Senior Vice President reported Consec Capital Management's performance for the period ending September 30, 1999.

| Total Rate of Return | 3rd Quarter, 1999 | Inception* |
|--|-------------------------------------|-------------------|
| Industry Selection | 15 bps | 163 bps |
| Stock Selection | 710 bps | 1014 bps |
| Other | 385 bps | 289 bps |
| Fees | (6) bps | (6) bps |
| Total Value Added to the ASRS Relative to Benchmark | 1104 bps | 1460 bps |

* Inception date: 05/31/1999

Mr. Karl Polen complimented Mr. Pence on Consec Capital Management's performance for the quarter.

Mr. Norman Miller inquired if Mercer Investment Consulting was satisfied with Consec's staff and portfolio performance. Mr. Dennison reported that Consec had performed extremely well.

Mr. John Dagenhard, Senior Vice President and Mr. John O'Toole, CFA Senior Vice President reported Mellon Equity's performance for the period ending September 30, 1999.

| Total Rate of Return | 3rd Quarter, 1999 | Inception* |
|--|-------------------------------------|-------------------|
| Sector Selection | (16) bps | 19 bps |
| Stock Selection | 25 bps | 99 bps |
| Other | 74 bps | 69 bps |
| Fees | (5) bps | (7) bps |
| Total Value Added to the ASRS Relative to Benchmark | 110 bps | 180 bps |

* Inception date: 05/31/1999

7. Presentation, Discussion and Appropriate Action Regarding the Audit Board Committee's Recommendation for Award of the External Audit Services Contract.

Dr. Chuck Essigs, Chairman, Audit Board Committee reported that the ASRS recently conducted a resolicitation for external audit services. The Request for Proposal (RFP) was sent to 87 firms registered with the Arizona State Procurement Office. Despite the wide advertisement of this RFP, Dr. Essigs stated Deloitte-Touche, the incumbent contractor, was the only firm to submit a proposal. It is the Committee's opinion that Deloitte-Touche's extremely competitive fees are a key factor in no other firms responding to the RFP.

Motion: Dr. Chuck Essigs moved that the Board approve the award of a one-year contract with two extension periods of one year each to Deloitte-Touche for External Audit Services.

Mr. Alan Maguire seconded the motion.

By a vote of 8 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

8. Director's Report

Mr. LeRoy Gilbertson reported that Mr. Paul Matson, Senior Investment Manager would be presenting the ASRS's Performance Overview, Mr. Anthony Guarino, Deputy Director for Internal Operations would be reporting the ASRS's progress on Y2K compliance, and Donna Buelow, Assistant Director Member Services would be reporting an issue with Premier Healthcare.

Mr. Paul Matson reported that the ASRS recently ranked number two in investment returns among the universe of 55 public pension funds in the nation for the year ending June 30, 1999. Mr. Ray Rottas inquired what the reasons were for such high returns. Mr. Matson explained there are four reasons why the ASRS has performed so well: 1) the overall Board approved asset allocation, which is 50% U.S. equities, 15% EAFE, and 30% bonds; 2) the ASRS has invested in the allocation policy through liquid markets and has steered away from alternative investments; 3) the ASRS has a rebalancing methodology that constrains risk, but allows gains in asset classes up to 3% before rebalancing; and 4) the ASRS has a significant portion of assets that are passively managed, which results in low costs.

Mr. Anthony Guarino informed the Board that the ASRS is progressing in becoming Y2K compliant. Mr. Guarino stated the staff is continuing testing and preparing contingency plans for the four largest areas of concern: 1) telephone system, 2) member benefits, 3) long-term disability, and 4) medical coverage.

Mr. Karl Polen inquired why reports indicate a backlog in the service purchase area. Mr. Anthony Guarino replied that the extra staff efforts utilized in year-end closing and Y2K preparations have caused a backlog, but a task force is being put in place to eliminate the backlog of service purchase requests.

Mr. Alan Maguire was excused at 10:45 a.m.

Ms. Donna Buelow reported that on November 16, 1999, the Department of Insurance obtained a court order placing Premier Healthcare into receivership. Ms. Buelow stated that approximately 800 ASRS members will be impacted, and that an open enrollment period will commence in early December to allow those members the opportunity to reselect an insurance carrier. Mr. Ray Rottas requested the affected members be advised of any information the ASRS receives pertinent to the insolvency. Ms. Buelow informed the Board that members have received correspondence regarding their options. Dr. Chuck Essigs requested staff begin preparation of an attractive Request for Proposal (RFP) for coverage for

members in rural areas. Ms. Buelow replied that staff is currently in the process of meeting with the State Procurement Office to draft a RFP.

Dr. Merlin DuVal explained the background of why HMOs are failing in rural areas. He stated that when you hear the term Medicare HMO, that the financing instrument in Washington determines the annual adjusted per capita cost (AAPCC) in a geographic region in any given year. If you start in a rural area, where fees are lower, the average annual AAPCC is then lower. Therefore, the HMO that goes into a rural area runs a tremendous risk of going bankrupt. This is what is happening with Premier Healthcare. He further explained that this might discourage future companies from moving into the rural areas to pick up the 800 ASRS members who were covered under Premier Healthcare. The only option these members may be left with is Medicare plus a Medigap policy, if they wish to purchase it.

9. Board Requests for Agenda Items.

There were no Board requests for agenda items.

10. Call to the Public.

Mr. Marty Drozdoff, present in the Tucson public, expressed his opinion on the upcoming performance of Mellon Equity.

Mr. Bill Goettsch inquired when the ASRS Actuarial Valuations would be produced. Mr. Anthony Guarino responded that because of the additional workload on staff focusing on Y2K issues, the valuations are scheduled for production in January 2000.

Mrs. Shirley Goettsch inquired about the purpose of the Special ASRS Board meeting scheduled for December 7, 1999. Mr. LeRoy Gilbertson replied that there are investment related issues requiring action, and since there is not a regular meeting scheduled in December, a special meeting has been called.

There were no requests to speak from the Phoenix public.

11. A Special ASRS Board meeting is scheduled for Tuesday, December 7, 1999, at 2:00 p.m. in the 10th Floor Board Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012.

The next Regular ASRS Board meeting is scheduled for Friday, January 21, 2000, at 9:00 a.m. in the 10th Floor Board Room of the ASRS Office, 3300 North Central Avenue, Phoenix, Arizona 85012.

12. Adjournment of the ASRS Board.

Mr. James Jenkins, Chairman adjourned the November 19, 1999, regular meeting of the ASRS Board at 11:02 a.m.

Respectfully submitted,

Jalene Trivino, Secretary

Date

LeRoy Gilbertson, Director

Date